

2007 Report to the Housing Commission

Virginia Housing Commission

April 3, 2007

Susan F. Dewey,

Executive Director



Overview of VHDA

- The General Assembly established VHDA in 1972 as a self-supporting State Authority—No state appropriations
- Our mission is to “help low and moderate-income Virginians attain quality, affordable housing”
- We provide mortgage loans primarily to first-time home buyers and to finance affordable rental housing
- Our capital is raised from private investors through the sale of tax-exempt and taxable notes and bonds
- We complement and support the activities of the private housing industry

VHDA is performing well in a difficult market environment

VHDA is Continuing to Perform Well

The risks for VHDA are different than for our industry partners

Example: VHDA's segment of today's home purchase market is less than a third of the whole

(VHDA) 30%—low and mod. income first-time buyers	
35%—repeat ("trade-up") buyers of primary residences	25%—second home buyers and investors
10%—other 1st-time buyers	

- VHDA serves just one segment of the overall housing market
- While we monitor overall trends, our primary focus is on the specific needs of low and moderate-income Virginians

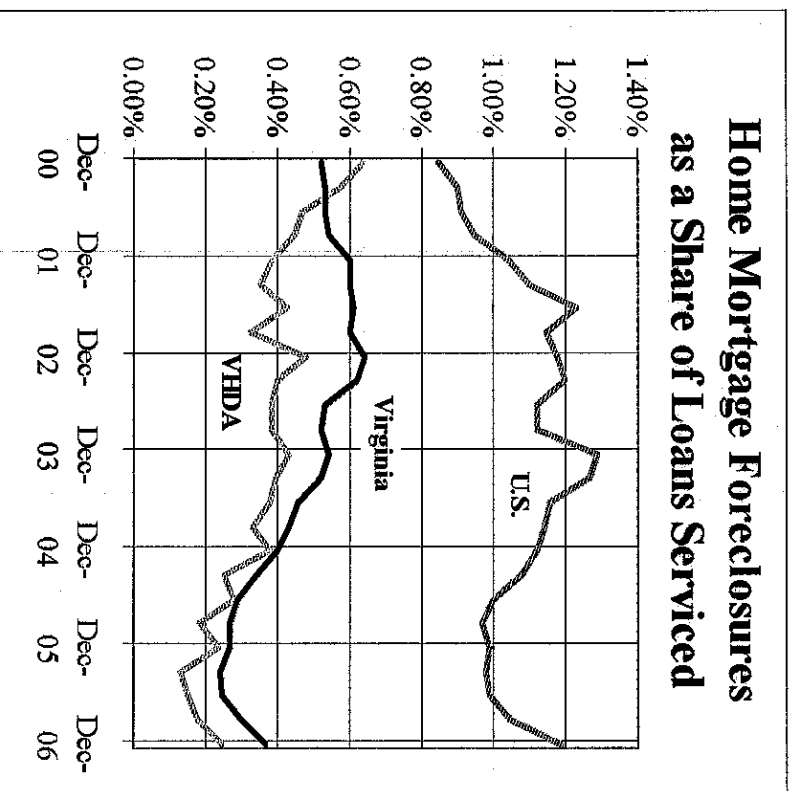
VHDA is Continuing to Perform Well

VHDA offers affordable, secure alternatives to high-risk loans

- We offer only long-term, fixed-rate loans in contrast to the riskier adjustable-rate loans that have represented a large share of conventional mortgages
- Our extensive, free homeownership education classes help home buyers avoid predatory lending practices and make informed, sound financial choices

VHDA is Continuing to Perform Well

VHDA mortgage loans continue to perform extremely well

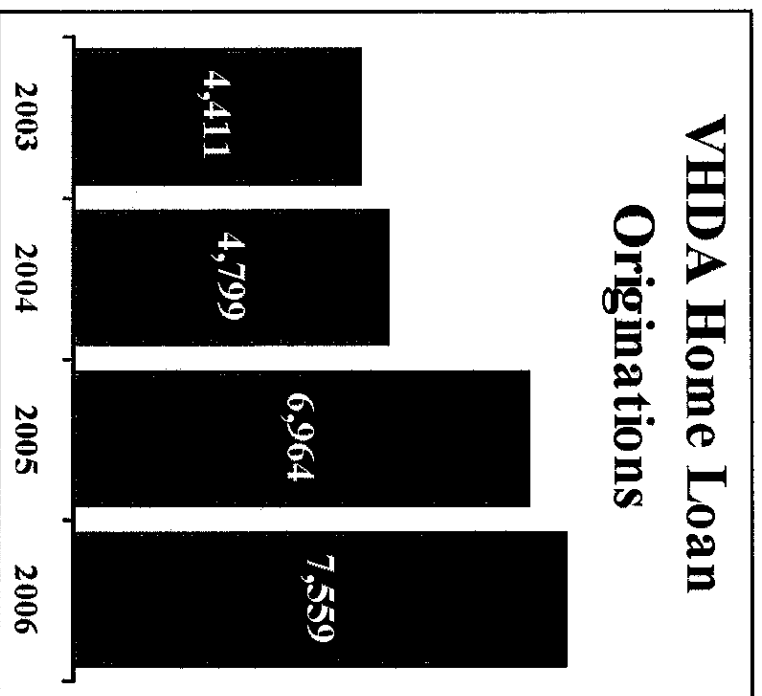


Source: JKE Analysis of SFS Delinquency and Servicing Reports

- Market weakness has not significantly impacted loan performance in Virginia
- Virginia and VHDA foreclosures remain well below the national average

VHDA is Continuing to Perform Well

VHDA is providing a needed counter-cyclical stimulus



- VHDA's CY 2006 home loan volume exceeded the high level we achieved in CY 2005
- We anticipate continued strong loan originations in 2007

VHDA is Continuing to Perform Well

VHDA's lending and financial performance remain strong

- Conventional lenders are now having to retrench, and some are suffering financial fallout from imprudent lending practices during the recent housing boom
- In contrast, VHDA continues to expand home buying opportunities for low- and moderate-income first-time homebuyers
- Our single-family bond program continues to retain a “Triple A” rating at a time of heightened Wall Street attention to credit risks

VHDA is Continuing to Perform Well

VHDA's lending and financial performance remain strong

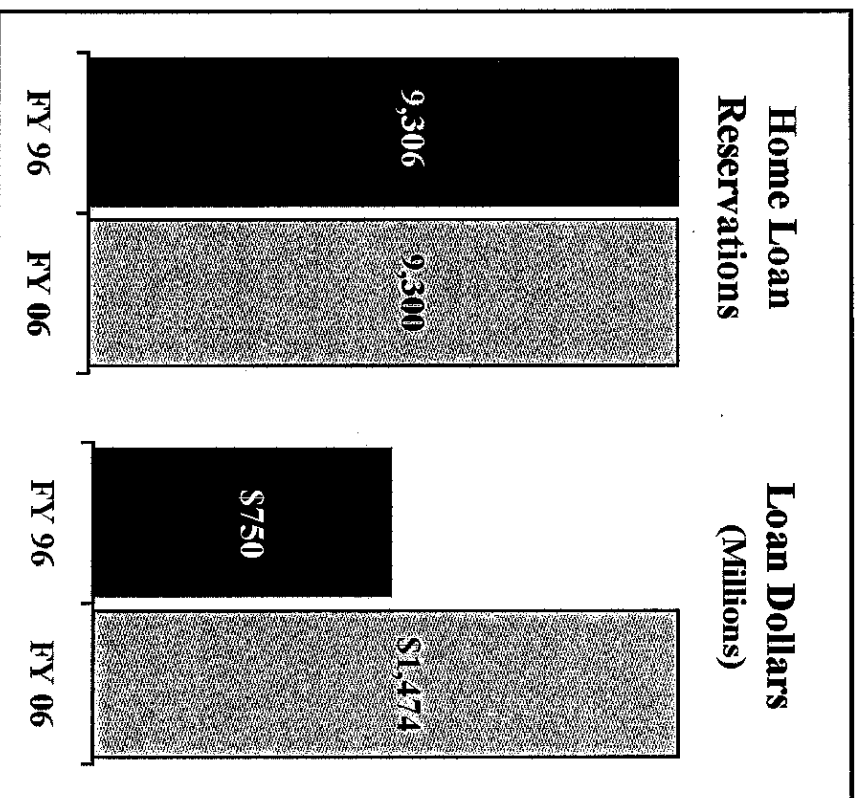
- VHDA's Multifamily production also remains strong, providing financial assistance to 4,000-5,000 affordable rental units per year
- A large part of VHDA's Multifamily financing allows developers to acquire and rehabilitate existing properties to preserve affordability and help revitalize the existing rental housing stock

VHDA is Continuing to Perform Well

Looking ahead, our two primary challenges are:

- 1. Capital capacity**
- 2. Affordability**

Challenge 1: Capital capacity

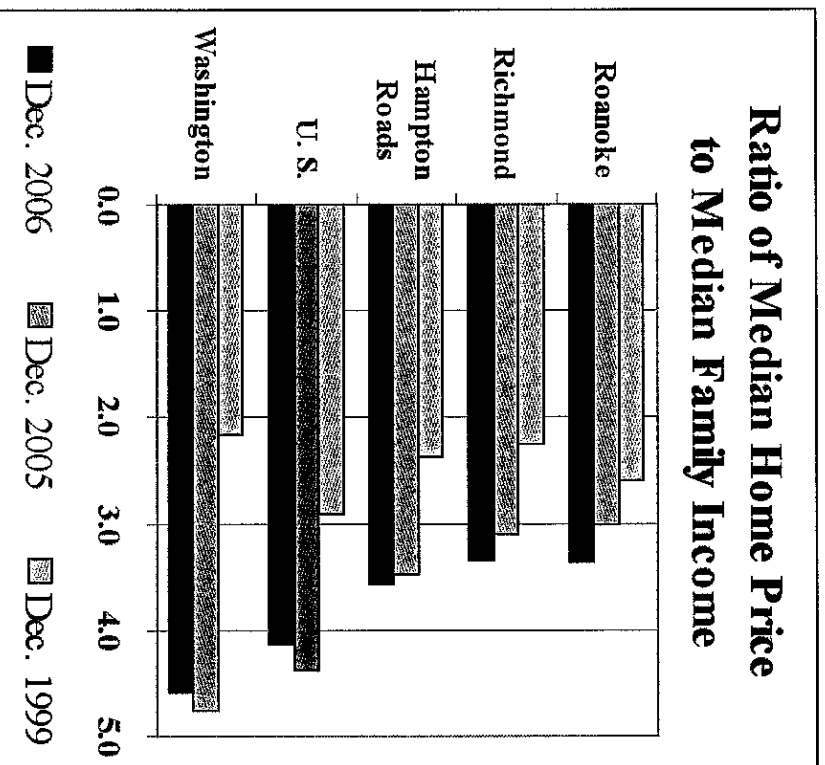


- VHDA's tax-exempt bond issuance is restricted by annual volume caps
- Over the past decade, the run-up in housing costs has doubled our capital needs

Challenge 1: Capital capacity

- VHDA has maintained high loan volume despite the volume cap as a result of:
 - Recycling of loan prepayments
 - Additional volume allocations from unused amounts set aside for other issuers
- However, recycling is being reduced by federal restrictions, and reliance on reallocations from unused set asides makes program volume difficult to manage

Challenge 2: Affordability



Source: National Association of Home Builders

- The ratio of housing cost to income remains extremely high
- Income growth is healthy and housing prices are slackening, but it will take many years for incomes to catch up with current housing prices

Challenge 2: Affordability

- The main factors impacting costs are:
 - Shortages of developable residential land
 - Constraints on residential densities
 - Local regulatory fees and proffers
- These cannot be fully addressed through financing and subsidy programs

**VHDA has expanded its
strategic focus to include
helping to build strong,
sustainable communities**

Our main focus has been on the needs of the households we serve

VHDA's strategic priorities continue to include:

- Financing affordable housing to meet the needs of low- and moderate-income households
- Expanding homeownership opportunities for underserved minority populations
- Addressing the housing needs of seniors and people with disabilities

VHDA is also focusing on the needs of local communities

- We are committed to financing a range of housing choices to address the diverse needs of Virginia communities
- We support the development of healthy, sustainable neighborhoods by financing well-designed, quality housing that is a long-term community asset

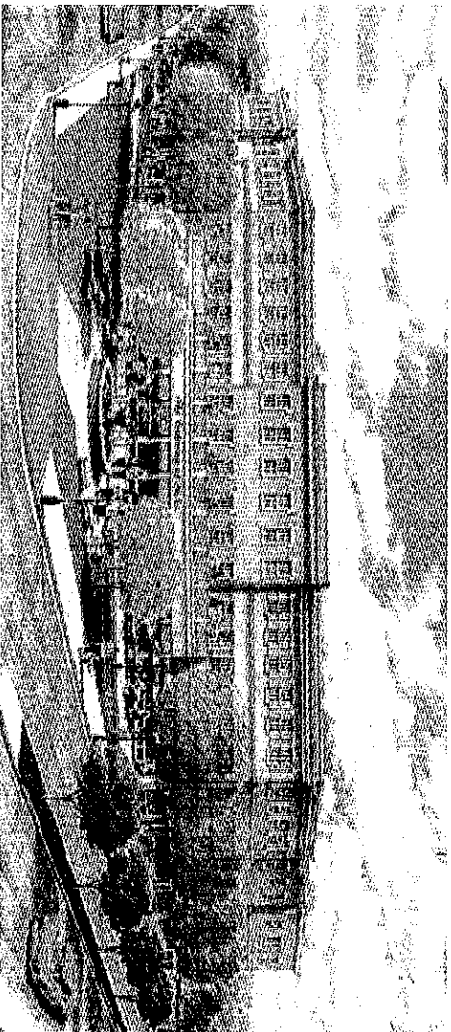
VHDA does not directly produce affordable housing

- Our role is to provide affordable mortgage capital and related resources to facilitate production and acquisition of affordable homes and apartments
- We rely on cooperation between developers and local governments to produce the supply of housing we finance

New development models are needed to accommodate growth

- Lack of consensus on addressing growth is impeding adequate housing production
- VHDA is working collaboratively with developers and localities to support new development models that will enable production of affordable housing in a manner that is responsive to community needs and desires

Mixed-use and mixed-income help build strong communities



**Gateway at SoNo /
South Norfolk
Revitalization**

**VHDA is taking the lead in financing
mixed-use and mixed-income developments
that support neighborhood revitalization**

Affordable housing needs are linked to key state priorities

VHDA is prepared to work with the Housing Commission to better integrate strategies for affordable housing development with state planning for economic development, land use, transportation, and human services